

INDIANA

Comprehensive Annual Financial Report
For Fiscal Year Ended June 30, 2005

Mitchell E. Daniels, Jr., Governor



Prepared by the Office of
Indiana Auditor of State

Connie K. Nass

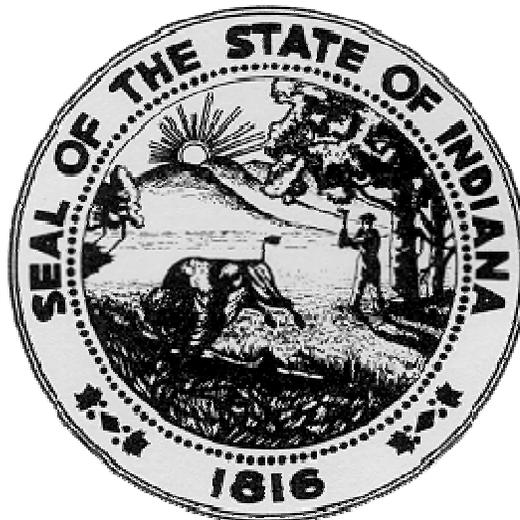
Room 240 State House
200 West Washington St.
Indianapolis, IN 46204



STATE OF INDIANA

**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2005**

Mitchell E. Daniels, Jr., Governor



Prepared by:

The Office of the Auditor of State
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Room 240
State House
Indianapolis, Indiana 46204

Acknowledgments

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We extend special thanks to all employees of State agencies throughout Indiana. Your cooperation and assistance in the preparation of this Comprehensive Annual Financial Report has been invaluable.

The pictures in this report are of scenes in Indiana taken from the book "Destination Indiana – Travels Through Hoosier History", text by Ray E. Boomhower and photography by Darryl Jones. Reproduced with the permission of Darryl Jones, the photographer. For information about the book and the Indiana Historical Society please visit www.indianahistory.org, 450 West Ohio Street, Indianapolis, IN 46202-3269, phone number 317-232-1882.

Visit our web site at www.in.gov/auditor/

**AUDITORS OF STATE
of
THE STATE OF INDIANA**

Term	Name	Politics
1816-1828	William H. Lilley	Party Unknown
1828-1829	Benjamin I. Blythe	Party Unknown
1829-1844	Morris Morris	Party Unknown
1844-1847	Horatio J. Harris	Party Unknown
1847-1850	Douglas Maguire	Whig
1850-1853	Erastus W. H. Ellis	Democrat
1853-1855	John P. Dunn	Democrat
1855-1857	Hiram E. Talbot	Fusion-"peoples"
1857-1861	John W. Dodd	Democrat
1861-1863	Albert Lange	Republican
1863-1865	Joseph Ristine	Democratic Union
1865-1869	Thomas P. McCarthy	Republican
1869-1871	John D. Evans	Republican
1871-1873	John C. Shoemaker	Democrat
1873-1875	James A. Wilder	Republican
1875-1879	Ebenezer Henderson	Democrat
1879-1881	Mahlon D. Manson	Democrat
1881-1883	Edward H. Wolfe	Republican
1885-1887	James H. Rice	Democrat
1887-1891	Bruce Carr	Republican
1891-1895	John O. Henderson	Democrat
1895-1899	Americus C. Daily	Republican
1899-1903	William H. Hart	Republican
1903-1905	David E. Sherrick	Republican
1905-1906	Warren Bigler	Republican
1906-1910	John C. Billheimer	Republican
1910-1914	William H. O'Brien	Democrat
1914-1916	Dale J. Crittenberger	Democrat
1916-1920	Otto Clauss	Republican
1920-1922	William G. Oliver	Republican
1922-1924	Robert Bracken	Democrat
1924-1928	Lewis S. Bowman	Republican
1928-1930	Arch N. Bobbit	Republican
1930-1934	Floyd E. Williamson	Democrat
1934-1938	Laurence F. Sullivan	Democrat
1938-1940	Frank G. Thompson	Democrat
1940-1944	Richard T. James	Republican
1944-1948	Alvin V. Burch	Republican
1948-1950	James M. Propst	Democrat
1950-1954	Frank T. Millis	Republican
1954-1956	Curtis E. Rardin	Republican
1956-1958	Roy T. Combs	Republican
1958-1960	Albert A. Steinwedel	Democrat
1960-1964	Dorothy Gardner	Republican
1964-1966	Mark L. France	Democrat
1966-1968	John P. Gallagher	Republican
1968-1970	Trudy Slaby Etherton	Republican
1970-1978	Mary Aikins Currie	Democrat
1978-1982	Charles D. Loos	Republican
1982-1986	Otis E. Cox	Democrat
1986-1994	Ann G. DeVore	Republican
1994-1998	Morris Wooden	Republican
1999-	Connie K. Nass	Republican

STATE OF INDIANA

Comprehensive Annual Financial Report
For the Year
Ended June 30, 2005

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2005

INTRODUCTORY SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Published by the Office of the Auditor of State of Indiana, Connie Nass

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Corydon Capitol State Historic Site
Corydon, Indiana

Picture From the book "Destination Indiana – Travel s Through Hoosier History"

(See page ii for more information about the book.)

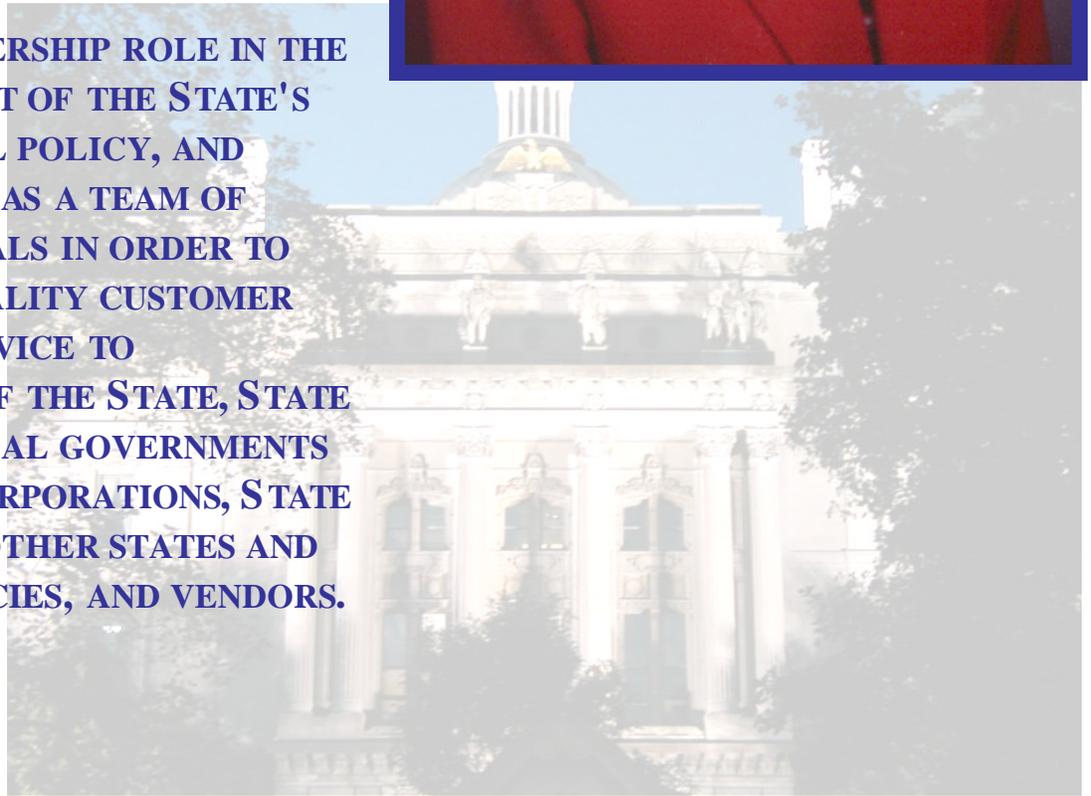
CONNIE KAY NASS
AUDITOR OF STATE OF INDIANA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

*THE MISSION OF THE STATE
AUDITOR'S OFFICE IS TO CARRY OUT
THE CONSTITUTIONAL
RESPONSIBILITIES OF THE AUDITOR
OF STATE BY:*

**MAINTAINING THE STATE'S
FINANCIAL RECORDS AND REPORTS
AND PAYING THE STATE'S BILLS AND
EMPLOYEES EFFICIENTLY,
EFFECTIVELY, AND HONESTLY**

**EDUCATING AND INFORMING THE
PUBLIC ABOUT INDIANA STATE
GOVERNMENT'S FINANCES**

**TAKING A LEADERSHIP ROLE IN THE
DEVELOPMENT OF THE STATE'S
FINANCIAL POLICY, AND
WORKING AS A TEAM OF
PROFESSIONALS IN ORDER TO
PROVIDE QUALITY CUSTOMER
SERVICE TO
THE CITIZENS OF THE STATE, STATE
AGENCIES, LOCAL GOVERNMENTS
AND SCHOOL CORPORATIONS, STATE
EMPLOYEES, OTHER STATES AND
FEDERAL AGENCIES, AND VENDORS.**





Auditor of State

Connie Kay Nass

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December 28, 2005

Governor,
Members of the General Assembly,
Citizens of the State of Indiana:

We are proud to present the Comprehensive Annual Financial Report (CAFR) for the State of Indiana's fiscal year ended June 30, 2005.

This Comprehensive Annual Financial Report has been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed in pronouncements by the Governmental Accounting Standards Board. While management remains primarily and ultimately responsible for the contents and presentation of this report, responsibility for both the accuracy of the data presented and completeness and fairness of the presentation rests with the State agencies that provide the data and are obligated to verify postings. We believe the information set forth in this report is accurate in all aspects and is presented in a manner designed to set forth the financial position and results of operations of the State as measured by the financial activity of its various funds.

State statute requires an annual audit by the Indiana State Board of Accounts. The Board is considered by federal and State government to be independent auditors. The Auditor's report on the financial statements is included in the financial section of the Statewide Single Audit Report of the State of Indiana.

The State is responsible for ensuring that an adequate internal control structure is in place to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized user disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires management to make estimates and judgments.

This internal control structure is subject to periodic evaluation by management and internal audit staff of the various State agencies. As part of the Single Audit, tests are made to determine the adequacy of the internal control structure related to federal financial assistance programs, as well as to determine that the State of Indiana has complied with applicable laws and regulations.

The State has adopted GASB Statement No. 34 as required by Generally Accepted Accounting Principles. GASB 34 provides for two types of statements, government-wide and fund statements. The government-wide statements are very similar to the private sector's statements, using the full accrual basis of accounting and the economic resources measurement focus. The governmental funds financial statements use the modified accrual basis of accounting and the current financial resources measurement focus. In the government-wide statements, infrastructure (roads, bridges,

dams) has been capitalized. Capital assets, except for infrastructure using the modified approach, are depreciated like the private sector.

GASB Statement No. 34 provides for the presentation of Management's Discussion and Analysis (MD&A) in the Financial Section. The MD&A introduces the basic financial statements and provides an analytical overview of the government's financial activities. It is presented before the basic financial statements. We encourage you to read it to get an in-depth analysis of the State of Indiana's finances.

This CAFR is presented in three sections: Introductory, Financial, and Statistical.

The Introductory Section includes this transmittal letter, a list of former Auditors of State, the Table of Contents, the Certificate of Achievement for Excellence in Financial Reporting Award, the State Organizational Chart, and a listing of Selected State Officials.

The Financial Section includes the independent auditor's report, Management's Discussion and Analysis, the basic financial statements, required supplementary information, and other supplementary information.

The financial statements include government-wide and fund financial statements, representing all funds for which the State of Indiana is accountable, based on criteria for defining the financial reporting entity prescribed by the Governmental Accounting Standards Board. The criteria for inclusion are based on fiscal dependency, financial accountability, selection of governing authority, and ability to significantly influence operations. Based on these criteria, the various funds and entities shown in this report are considered as part of the reporting entity.

The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis.

Profile of the Government

Located in America's heartland in the Midwest, Indiana is a leading manufacturing State and a major agricultural producer. The latest U.S. Census Bureau estimate places Indiana's population at 6,237,569, which makes Indiana the nation's 14th largest State. The State is 64% urban and 36% rural. The five largest cities are Indianapolis, the capital, Fort Wayne, Evansville, South Bend and Gary.

Indiana became the 19th State of the Union on December 11, 1816. The constitution establishes the government in three separate departments: legislative, executive including administrative, and judicial. The legislative power of the State is vested in the Indiana General Assembly, which consists of a 100 member House of Representatives and a 50 member Senate. The Indiana General Assembly has the power to enact laws which are not prohibited by the State constitution and not in conflict with Federal laws and powers. The executive power of the State is vested with the Governor. The State constitution and legislation establish the following Statewide elected administrative officials: Lieutenant Governor, Auditor of State, Secretary of State, Treasurer of State, Attorney General, and the Superintendent of Public Instruction. The judicial power of the State is vested in one Supreme Court consisting of five justices, one Court of Appeals consisting of 15 judges, 92 Circuit Courts, and one Tax Court.

The State government provides a wide range of services to the citizens of Indiana, including education, transportation, public health, public safety, welfare, and conservation, culture and economic development.

This report includes the financial activities and balances of the State of Indiana and its component units. The component units are legally separate entities for which the State of Indiana has financial responsibility and include State funded colleges and universities, and other legally separate entities that provide services and benefits to local governments and the citizens of the State of Indiana. More information on the financial reporting entity can be found in Note I(A) in the notes to the financial statements.

The Indiana General Assembly meets every other year to adopt a biennial budget, which is submitted by the Governor. The General Assembly enacts the budget through passage of specific appropriations, the sum of which may not exceed estimated funding sources. Budgetary control is exercised in that agencies of the State may only expend appropriations as allotted by the Budget Agency or other statutory authority. The State Board of Finance, which consists of the Governor, Auditor of State, and Treasurer of State, is empowered to transfer appropriations from one fund of the State to another, with the exception of trust funds. The Office of Management and Budget may transfer, assign and reassign appropriations made for one specific purpose to another use or purpose within the same agency.

Factors Affecting Economic and Financial Conditions

The information presented in the financial statements is better understood within the context of the specific environment within which the State of Indiana operates. The following describes that environment.

Local Economy

With an estimated 2004 Gross State Product of \$227.6 billion, Indiana's economy ranks sixteenth largest in the country in terms of the value of goods and services produced. The State ranks in the top six nationally for producing items as diverse as steel, motor vehicles parts, medical equipment and supplies, pharmaceuticals, and grain and oilseed milling. According to published data from the U.S. Census Bureau, Indiana ranked fourteenth in 2004 in the value of exports.

In 2004, the manufacturing sector accounted for 16% of the jobs in the State. Wholesale and retail trade accounted for 15% employment. Between 2001 and 2004, the largest employment gains came in areas of administrative and waste services (up 15.8%) and educational services (up 13.1%). The number of jobs in health services increased by 5.4% during that period. At the end of 2004, the State's unemployment rate stood at 5.2%. Between 2003 and 2004, per capita personal income increased by 4.3% in the State.

Cash Management and Investments

Cash temporarily idle during the year was invested in money market accounts, certificates of deposit, obligations of the U.S. Treasury, and repurchase agreements. The pension trust funds' portfolios include other investments as outlined in Note I(D)(1) in the notes to the financial statements. The average yield on investments, except for the pension trust funds, was 2.41%. The State's investment policy is to minimize credit and market risks while maintaining sufficient liquidity and earning a competitive yield on its portfolio. Deposits are insured by federal and State depository insurance.

Debt Administration

The commissions and authorities, some of which are included as component units in the financial reporting entity of the State of Indiana, issue bonds for some of the State's capital needs. All of the bond issues are revenue bonds associated with specific State component units. The total of long-term revenue bonds and notes outstanding, net of amortized discounts, is \$9.74 billion at June 30, 2005.

Risk Management

The State of Indiana assumes the cost of the risks associated with Unemployment Compensation Benefit Claims for State employees, Workers' Compensation Benefit Claims for State employees, Tort claims filed against the State, Medical Malpractice claims filed against State hospitals, accidents caused by State motor vehicles, and on State owned real property, including public buildings. The State administers self-insurance funds for certain employee health benefits, disability and death benefits.

Pension Benefits

The State of Indiana sponsors eight public employee retirement systems (PERS). One of these, the State Police Pension Fund, is part of the primary government. The Public Employees' Retirement Fund and the State Teachers' Retirement Fund are discretely presented component units. In addition to its own fund, the board of the Public Employees' Retirement Fund administers the following funds: the 1977 Police Officer and Firefighters' Pension and Disability Fund, the Excise Police and Conservation Enforcement Officers' Retirement Fund, the Prosecuting Attorneys' Retirement Fund, the Legislators' Retirement System, and the Judges' Retirement Fund.

Major Initiatives

K-12 Education - Indiana, through the Education Roundtable, continues its efforts to maintain rigorous standards in math, language arts, science and social studies. Concerted efforts are underway to maximize the taxpayer resources available to student learning and meet Indiana's dropout challenge. Course curriculum and graduation requirements have been strengthened through the establishment of Indiana's Core 40 college preparation program as the standard default curriculum for students who enter high school in the 2007/2008 school year and subsequent years. Consistent with the No Child Left Behind Act and Indiana's own P.L. 221-1999, ISTEP+ testing is given in grades 3-10 in math and language arts. Science testing is given in Grades 5 and 7.

Public Safety - The number of juvenile offenders housed within the Indiana correctional system continues to decline, which allowed for the closing of two juvenile correctional facilities. The offenders will be moved to other facilities in an effort to better utilize space and save taxpayer dollars. The closing of the Bloomington Juvenile Correctional Facility and the Fort Wayne Juvenile Correctional Facility will save the State a combined \$4.26 million annually.

Existing space at Westville Correctional Facility and Miami Correctional Facility has been opened. This allowed offenders previously housed in Kentucky to be moved back to Indiana. These decisions moved approximately 900 offenders back within the State and will save an estimated \$8.2 million.

The 800 megahertz SAFE-T project, the Statewide communications system, is being constructed and managed by the State of Indiana's Integrated Public Safety Commission (IPSC). The system is

dedicated for use by State and local public safety “first responder” agencies and will ultimately be comprised of 126 network sites with up to 64,000 registered user radios. The system has a final cost set at \$79 million which is less than the initial estimate of \$90 million and will be completed in two years. Currently, Phase 2 is in process which addresses communications in the southern part of the State. Funding for IPSC comes from a \$1.25 fee attached to most driver license, vehicle title, and registration transactions processed by the Bureau of Motor Vehicles.

Health and Human Services - HoosierRx, the Indiana Prescription Drug Program for low-income seniors, spent \$12.8 million in FY05, an increase of 32.7% from FY04. This increase in spending can be attributed to a 36.2% increase in total number of eligible members utilizing the program, as well as an increase in the benefit, from 50% to 75% of the approved drug cost. In FY05, 22,008 eligible members utilized Hoosier Rx.

In FY05, Medicaid Assistance spent \$4.5 billion in State and federal dollars, an increase of 0.5% from FY04. Eligible members increased to 832,656 in FY05, an increase of 3.5% from FY04.

In FY05, \$92.9 million was spent in State and federal dollars on the Children’s Health Insurance Program (CHIP), an increase of 10.3% from FY04. There were a total of 69,000 eligible members for CHIP in FY05, an 8.1% increase from FY04.

The Community and Home Options to Institutional Care for the Elderly and Disabled program (CHOICE) provides services that enable the elderly and/or disabled to live independently in their own homes or in community integrated settings. In FY05, this program received an appropriation of \$48.7 million and served 10,275 clients. The average monthly cost per client in FY05 was \$566.37.

The State’s collection of child support payments increased from \$452.2 million in federal FY04 to \$484.8 million in federal FY05. This 7.2% increase in collections means more Indiana children are receiving the child support they deserve and that fewer Indiana families will have to rely on public assistance to meet their needs.

While the number of investigations of Child Abuse and Neglect (CAN) has increased from approximately 69,257 in 2004 to 73,629 in 2005, the number of substantiated cases of CAN decreased from 25,789 in 2004 to 24,444 in 2005.

Healthy Families Indiana (HFI) is a voluntary home visiting program for new parents designed to support positive parenting, encourage child health and development and prevent child abuse and neglect. The number of HFI families served has increased from 760 in 1994 to 23,256 in 2005.

The Child Care Development Fund (CCDF) program provides funding to low-income families for quality child care environments so that families may be self-sufficient and children are ready to learn. In FY 2005, an average of 33,471 children were authorized to receive services monthly. The average subsidy paid per child was approximately \$80.00 per week.

The Indiana State Department of Health (ISDH) implemented the Indiana Health Alert Network (IHAN) as part of a communications system to provide rapid, secure communication to public health partners.

The ISDH acquired new equipment and trained lab staff to improve services for testing mosquito-borne viruses such as West Nile virus, St. Louis Encephalitis virus (SLE), and Eastern Equine Encephalitis virus (EEE); food-borne virus such as norovirus; and several bacterial species including E. coli, Salmonella, and Shigella, using faster and more comprehensive testing methods. Indiana’s Commissioner of Health held an Obesity Summit to highlight the obesity problem in

Indiana. The summit combined people and resources from the public and private sectors to create an action plan to address obesity, a problem which shortens life expectancy and restricts the quality of existing life in Indiana.

The ISDH joined with the Alzheimer's Association of Greater Indiana to develop eight training courses relating to Alzheimer's and dementia care. Over fifty training sessions have been provided to nearly 3,000 nursing home staff throughout Indiana.

Higher Education – Indiana has concentrated part of its efforts on improving and enriching the Indiana economy through higher education. Indiana continued to provide additional funding begun in FY03 to research institutions that are able to increase their research grants, infusing money and jobs into the economy. Indiana also provided targeted appropriations to all State supported colleges and universities designed to stimulate the economy, including funding for programs in Informatics, Biomedical Engineering, Digital Communications and Nursing. Indiana recognized its substantial capital investment in the State institutions and increased Repair and Rehabilitation (R&R) funding 100% over the prior biennium. State aid for students attending public and private colleges and universities, provided through the State Student Assistance Commission for Indiana increased 4.8% in FY06 and an additional 10.7% in FY07.

Economic Development - The Indiana Economic Development Corporation (IEDC) replaced the Department of Commerce (DoC) in February 2005 as the main agency responsible for economic growth in Indiana. Other State economic development programs have been integrated into IEDC for more efficient use of funds. The IEDC is now in charge of job creation and retention in Indiana. The Indiana Promotion Fund, Training 2000 Fund, Economic Development Fund and Indiana 21st Century Research and Technology Fund provide resources to the workers and businesses of Indiana to better prepare them to compete in today's economy. IEDC also provides assistance to the Indiana Department of Agriculture and Rural Development and Minority Business Enterprises (MBE).

To attract new investment, a number of tax credits such as the Hoosier Business Investment (HBI) and Economic Development for a Growing Economy (EDGE) are being offered.

To promote Indiana businesses in the country and overseas, the Indiana Trade Promotion Program provides grants to assist in trade shows. To foster entrepreneurship, the Small Business Center connects capital with small business owners. By taking these steps, IEDC hopes to create an environment that will foster economic growth and lead to job creation.

General Government – Through Executive Order 05-02 and Public Law 246-2005, Governor Mitch Daniels and the Indiana State Legislature created the Office of Management and Budget (OMB) in 2005. The OMB brings together the financial and auditing functions of the State and names the Director of OMB the Chief Financial Officer for the State. The OMB is comprised of the following State agencies: State Budget Agency (SBA), Indiana Finance Authority, Department of Local Government Finance, Department of Revenue, State Board of Accounts, Public Employees' Retirement Fund, Teachers' Retirement Fund, and Government Efficiency and Financial Planning. The Director of the OMB also serves as the Director of the State Budget Agency, unless the Governor appoints a separate individual.

In order to coordinate the State's financial management functions, the heads of the OMB agencies listed above report to the OMB Director and administer their offices and agencies in compliance with such policies and procedures related to fiscal management as requested by the OMB Director. In January 2005, Governor Daniels signed Executive Order 05-03, which created the Office of the Inspector General. The Office of Inspector General is responsible for addressing fraud, waste,

abuse, and wrongdoing in State government. During the 2005 Legislative Session, the General Assembly passed Public Law 222-2005, which placed the office and the duties of the Inspector General in statute. The Office of the Inspector General investigates reports of criminal activity, ethics violations, and inefficiency. The Office of Inspector General has jurisdiction only over the Executive Branch and its administrative agencies. The Office of the Inspector General does not have jurisdiction over the Legislative or Judicial Branches of State government or county and city governments.

If after an investigation, the Inspector General determines that there has been a violation of the code of ethics, the Inspector General may file a complaint with the State Ethics Commission. The State Ethics Commission is an adjudicative body for all alleged ethics violations. The Inspector General provides staff for the State Ethics Commission and assumes responsibility for investigating and initiating administrative, civil recovery, or criminal actions for alleged misconduct.

Awards and Acknowledgements

Certificate of Achievement Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Indiana for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This was the twelfth consecutive year that the State of Indiana has achieved this prestigious award.

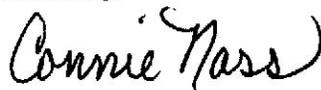
In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

We acknowledge the cooperation and assistance of all State agencies in the preparation of this report.

Sincerely,



Connie K. Nass
Auditor of State
State of Indiana



Charles E. Schalliol
Director
Office of Management and Budget

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Indiana

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Caren E. Perry

President

Jeffrey R. Emmer

Executive Director

